

GAO

Report to the Chairman, Subcommittee  
on VA, HUD, and Independent Agencies,  
Committee on Appropriations, House of  
Representatives

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December 1996

# CLEAN WATER ACT

## State Revolving Fund Loans to Improve Water Quality



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United States  
General Accounting Office  
Washington, D.C. 20548

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**Resources, Community, and  
Economic Development Division**

B-275459

December 31, 1996

The Honorable Jerry Lewis  
Chairman, Subcommittee on VA, HUD,  
and Independent Agencies  
Committee on Appropriations  
House of Representatives

Dear Mr. Chairman:

To help local governments and others construct projects to improve water quality and thereby help safeguard public health and the environment, in 1987 the Congress authorized the creation of state revolving funds.<sup>1</sup> Through the Clean Water State Revolving Fund Program, the federal government provides annual grants to the states as “seed money” to help capitalize their revolving loan funds. The states use their revolving funds to make loans to local governments and others; as the loans are repaid, the fund is replenished, and additional loans can be made. All 50 states and Puerto Rico have established state revolving funds, and through fiscal year 1996, the Congress had provided more than \$11 billion to their revolving funds.

You asked us to collect detailed information on selected states’ use of their revolving funds. To accomplish this task, we surveyed nine states with state revolving fund programs—Arizona, Florida, Illinois, Louisiana, Maryland, Missouri, Oregon, Pennsylvania, and Texas. We selected these states because they provide diversity in terms of the size of their programs and other factors, such as geographic location.

Specifically, for the nine states surveyed, we provide information on the amount of funds lent and the percentage of available funds lent, as of the end of each state’s fiscal year 1996.<sup>2</sup> In addition, we provide information on factors at the federal and state levels that constrained the amount and percentage of funds lent. The information in this report supplements preliminary information that we provided to you in April 1996.<sup>3</sup>

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<sup>1</sup>The program was established in the 1987 amendments to the Federal Water Pollution Control Act, also known as the Clean Water Act. It was authorized through 1994. Since then, the Congress has continued to fund the program with annual appropriations.

<sup>2</sup>In this report, the data cited are as of the end of the applicable state’s fiscal year or the federal fiscal year, as appropriate. In seven of the nine states, the state fiscal year ends on June 30; in Texas, it ends on August 31; and in Florida, it ends on September 30, which is also the end of the federal fiscal year.

<sup>3</sup>See Clean Water Act: Use of State Revolving Funds Varies (GAO/T-RCED-96-140, Apr. 16, 1996).

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## Results in Brief

The nine states increased the total amount of funds they lent from \$3.3 billion in 1995 to \$4.0 billion in 1996. Moreover, all nine states increased the amounts they lent. Six states achieved an increase of between 15 and 29 percent, and the other three states achieved an increase of 30 percent or more. Also, seven of the nine states increased the percentage of available funds they lent. Of these seven, three states increased this proportion by 17 percentage points or more. Nevertheless, the percentage of funds lent as of the end of 1996 varied substantially among the nine states. Specifically, five states had lent 80 percent or more of their available funds, three states had lent between 70 and 79 percent, and one state had lent 60 percent.

In eight of the nine states, officials identified the expiration of the authorizing legislation, as well as federal requirements, as affecting the amount and percentage of funds lent. For example, officials in seven states said that the legislation's expiration created uncertainty about the loan conditions that might apply in the future and caused some communities to postpone seeking or accepting loans. Also, officials in seven states said that other federal requirements—such as a prevailing-wage provision—discouraged some communities from seeking loans. In two states, officials said that the decisions made by the state programs constrained lending. For example, program managers in one state decided to finance certain wastewater projects from state funds rather than from the revolving fund, thereby limiting both the amount and the percentage of funds lent from the revolving fund. In the other state, efforts to publicize the program to local officials were not effective in the early years of the program.

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## Background

In 1972, the Congress established the Construction Grants Program to provide grants to help local governments construct wastewater treatment facilities. These federal grants provided most of the funding for these projects; the remainder was provided by the local government constructing the project. In 1987, the Congress began to phase out that program and authorized the creation of state revolving funds (SRF), which provide loans to local governments and others.

The states are required to match SRF capitalization grants at a rate of at least one state dollar for every five federal dollars. The states have the option of increasing the amount of SRF funds available to lend by issuing bonds guaranteed by the money in the SRFS. According to a national survey, as of June 30, 1995 (the latest data available), the states

collectively had \$18.9 billion in their SRF accounts; over one-half of this amount (approximately \$11 billion) was provided by federal capitalization grants.<sup>4</sup> (App. I provides additional information on funding sources for the nine SRFs.)

For the most part, the Congress gave the states flexibility to develop SRF loan assistance programs that meet their particular needs. However, the states must ensure that the projects funded with loans issued up to the amount of the federal capitalization grants meet two types of federal requirements. The first type of requirement includes those requirements contained in the various statutes that apply generally to federal grant programs. These requirements—also called “cross-cutting” authorities—promote national policy goals, such as equal employment opportunity and participation by minority-owned businesses. The second type of requirement applies various provisions that applied to the Construction Grants Program (known as title II requirements, because that program was authorized by title II of the Federal Water Pollution Control Act Amendments of 1972).<sup>5</sup> These requirements include compliance with the federal prevailing-wage requirement.<sup>6</sup> The title II requirements apply only to those projects wholly or partially built before fiscal year 1995 with funds made directly available by federal capitalization grants.

The transfer of federal funds to SRFs begins when the Congress appropriates funds annually to the Environmental Protection Agency (EPA). EPA then allots capitalization grants to the individual states, generally according to percentages specified in the Clean Water Act.<sup>7</sup> To receive its allotment, a state has up to 2 years to apply for its capitalization grant. In order to apply, a state must, among other things, propose a list of potential projects to solve water quality problems and receive public

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<sup>4</sup>Between 1992 and 1995, the Ohio Water Development Authority annually surveyed all 50 states and Puerto Rico on certain aspects of the SRF program. See *State Revolving Loan Fund Survey - 1995*, Ohio Water Development Authority, Council of Infrastructure Financing Authorities Monograph No. 8, May 1996.

<sup>5</sup>For a more detailed description of the cross-cutting and title II requirements, see *Water Pollution: States' Progress in Developing State Revolving Loan Fund Programs* (GAO/RCED-91-87, Mar. 19, 1991).

<sup>6</sup>Federal law requires that workers on covered projects be paid the prevailing wage. The prevailing wage is defined as the wage paid to the majority of the workers in the job classification on similar projects in the same geographic area. For additional information on issues related to prevailing-wage rates, see *Davis-Bacon Act: Process Changes Could Raise Confidence That Wage Rates Are Based on Accurate Data* (GAO/HEHS-96-130, May 31, 1996).

<sup>7</sup>The 1987 amendments specified percentages for the 50 states, the District of Columbia, and seven other jurisdictions. As some of these other jurisdictions—such as Palau—have gained independence since 1987, they lost their entitlement to SRF funds. Their shares of the funds are allocated among the states and other jurisdictions that remain eligible for funds.

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comments on that list. After completing the list and receiving its capitalization grant, a state generally has 2 years to receive payments of the grant amount (via increases in its letter of credit). After each such increase, a state has up to 1 year to enter into binding commitments to fund specific projects. Next, a binding commitment is typically converted into a loan agreement.

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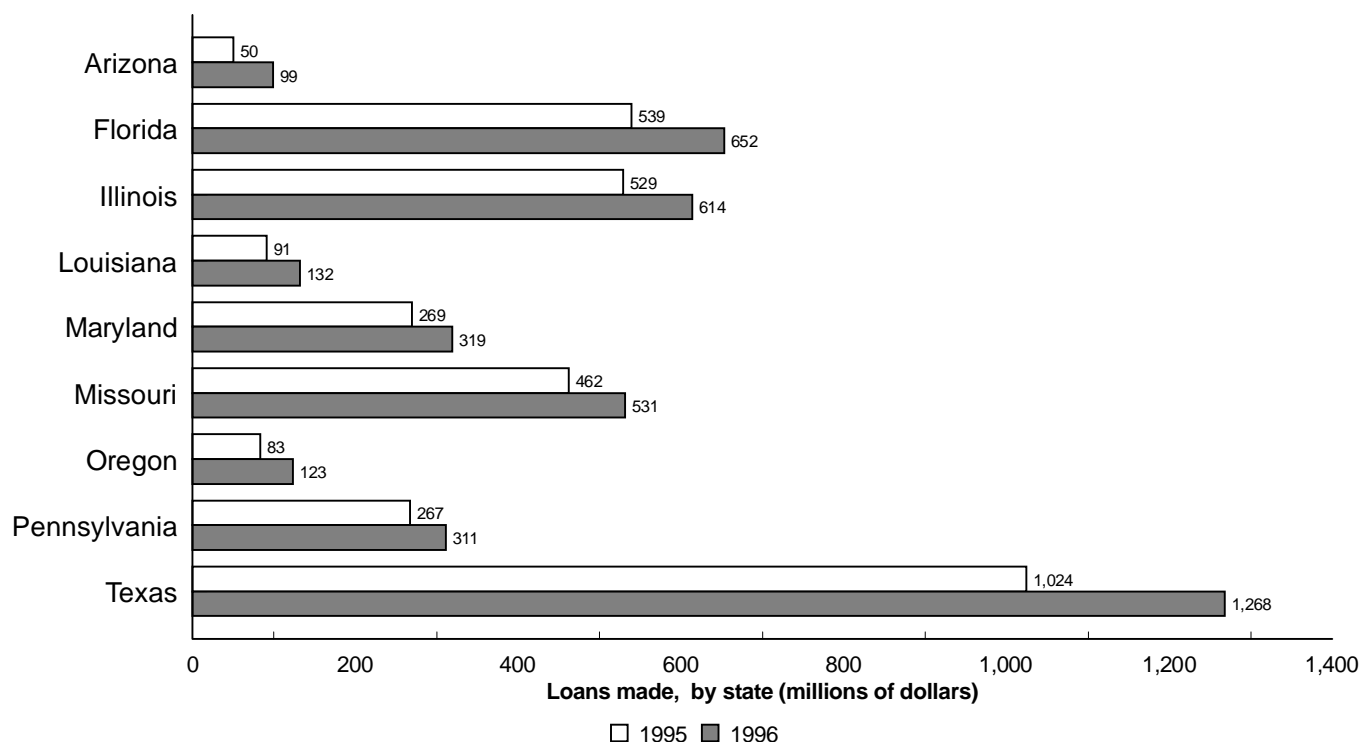
## Amount and Percentage of Funds Lent Generally Increased

The overall amount of funds lent by the nine states increased between 1995 and 1996, from \$3.3 billion to \$4.0 billion. The amount lent by each state also increased. During the same time period, seven states increased their percentage of funds lent, and two states maintained or decreased their percentage of funds lent.<sup>8</sup>

As figure 1 shows, all nine states increased the amount of funds they lent between 1995 and 1996. Six states increased their amount by 15 to 29 percent. For example, Pennsylvania increased the amount lent by 17 percent, from \$267 million to \$311 million. The other three states increased their amount of funds lent by 30 percent or more. The largest change—95 percent—was in Arizona, which increased from \$50 million to \$99 million.

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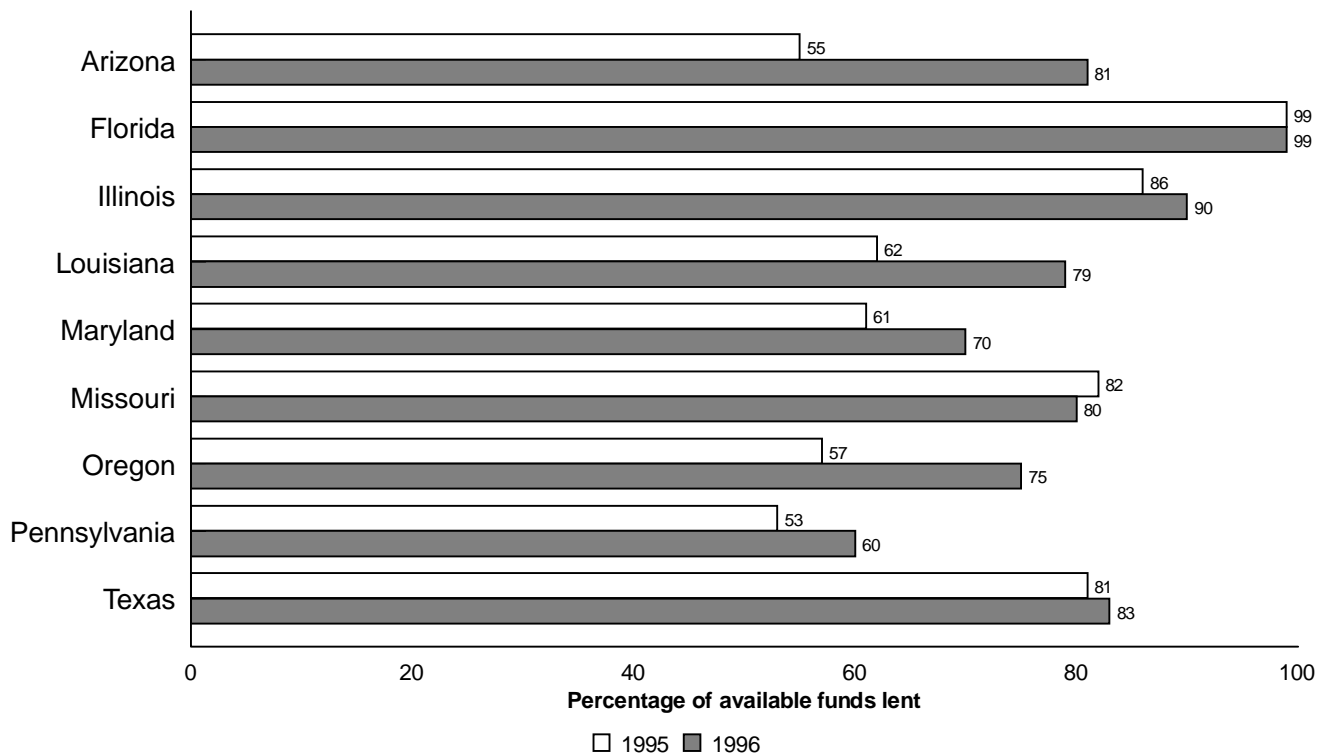
<sup>8</sup>It is possible for the amount of funds lent to increase, while the percentage of funds lent decreases (or stays the same). This situation can occur when the increase in the amount of funds lent is proportionately smaller than (or equal to) the increase in the available funds.

**Figure 1: Cumulative Amount of Funds Lent, 1995 and 1996, by State**

Note: Figures were rounded to the nearest whole million.

Source: GAO's analysis of information provided by the states.

As figure 2 shows, seven of the nine states increased their percentage of funds lent between 1995 and 1996. Three states increased their percentage by 17 percentage points or more. Four other states increased their percentage by 2 to 9 percentage points. Finally, one state's percentage stayed the same, and another state's percentage declined by 2 percentage points.

**Figure 2: Percentage of Funds Lent, 1995 and 1996, by State**

Note: Figures were rounded to nearest whole percent.

Source: GAO's analysis of information provided by the states.

Among the nine states, the percentage of funds lent at the end of 1996 ranged from 60 to 99 percent. Specifically, five states lent 80 percent or more of their available funds, another three states lent 70 to 79 percent, and the final state lent 60 percent. (App. II provides details on the amount and percentage of funds lent, by state.)



## Lack of Legislative Reauthorization and Other Federal-Level Factors Constrained Lending in Eight States

Officials in eight of the nine states cited one or more factors at the federal level as affecting the amounts and percentages of funds they lent. In seven states, officials said that uncertainty about the reauthorization of the SRF program discouraged some potential borrowers. Also, in seven states, officials cited a concern about compliance with federal requirements, including possible increases in project costs because of a federal prevailing-wage requirement. Finally, in three states, officials identified other reasons, such as federal restrictions on the use of SRF funds.

## Expiration of Legislative Authorization Discouraged Some Potential Borrowers

Officials in seven of the nine states said that the lack of reauthorization of the Clean Water Act limited their success in lending funds. Among other things, the lack of reauthorization made it difficult to assure the communities applying for loans that SRF funds would be available to finance their projects and created uncertainty among communities about the terms of their loans.

Officials from the seven states generally agreed that the amount and timing of federal funding became more uncertain after the SRF program's authorization expired at the end of September 1994. These officials said that prior to 1994, they used the amounts in the authorizing legislation to help determine how much money they would have to lend each year. According to these officials, these amounts also helped reassure the communities that federal funding would be available for projects. These officials said that the uncertainty created by the lack of reauthorization made it difficult for the states to schedule projects and assure the communities applying for loans that construction money would be available when needed.

In addition, Pennsylvania officials said that the lack of reauthorization caused some communities to delay accepting SRF loans because they hoped for more favorable loan terms after the act was reauthorized. Specifically, the Congress has considered a proposal to extend the maximum term for an SRF loan, in certain cases, from 20 years to as much as 40 years and to provide lower interest rates. The state officials said that the communities were interested in both longer repayment periods and lower interest rates.<sup>9</sup>

<sup>9</sup>In January 1992, we reported that the 20-year maximum term for SRF loans posed particular problems for small communities. We reported that low-technology solutions, such as filtration ponds and lagoons, which are often appropriate in small communities, generally have design lives extending far beyond 20 years. Limiting the loan term increases the annual debt service payments and, hence, user charges in communities that may not be able to afford higher charges. See *Water Pollution: State Revolving Funds Insufficient to Meet Wastewater Treatment Needs* (GAO/RCED-92-35, Jan. 27, 1992).

According to a Pennsylvania official, several communities in the state had a loan approved by the state but had not formally accepted the loan. In three cases, local officials told us that they were delaying further action pending the act's reauthorization; the total dollar value of such loans was about \$15 million. The Pennsylvania official told us that small, low-income communities in particular would benefit from the proposal to lengthen the repayment period. For example, in March 1995 Pennsylvania approved a \$3 million loan for Burrell Township, which has approximately 3,000 people. However, as of October 1996, the community had not accepted the loan on the chance that a reauthorized act would provide for a longer loan term and thus lower annual repayments.

### The Federal Prevailing-Wage Requirement Discouraged Potential Borrowers

Officials in seven of the nine states said that compliance with the federal requirements made financing projects with SRF funds less attractive and, in some cases, caused communities to turn down SRF loans. In particular, five states raised concerns that a federal prevailing-wage requirement could make SRF-financed projects more expensive to construct than projects constructed with other funds. While the title II requirements—which include the federal prevailing-wage requirement—ceased to apply to new projects after October 1, 1994, state officials said they were concerned that these requirements would be reinstated in the reauthorization act.

For example, an Arizona official said that the prevailing-wage requirement could inflate a project's costs from 5 to 25 percent. A Louisiana official said that the community of East Baton Rouge Parish withdrew its 1990 SRF loan application for a project to serve about 120,000 people when it discovered that the prevailing-wage requirement would increase the cost of labor for the project by more than \$1.1 million—31 percent.

Louisiana officials said that before the prevailing-wage requirement expired, the state had experienced difficulties in making loans largely because local officials perceived the requirement as increasing the costs of projects. The officials said that Louisiana's lending rate increased in part because the wage requirement expired. The state's lending rate was 44 percent at the end of 1994, before the requirement expired; 62 percent at the end of 1995; and 79 percent at the end of 1996.

EPA officials said they were aware that many states had a concern about the prevailing-wage requirement. They noted, however, that the requirement expired at the end of September 1994 and that the continued application of the requirement would be a state's management decision.

They also noted that, even before the requirement expired, it applied only to projects funded with federal capitalization grants (as opposed to projects funded solely with state matching or borrowed funds, for example). Moreover, they noted that some states have chosen to continue requiring projects to comply with the requirement, even though they are no longer required to do so; however, they said, both Arizona and Louisiana no longer apply the requirement to the projects they fund.

## Other Federal-Level Factors Also Discouraged Potential Borrowers

Officials from three states identified other factors at the federal level that constrained lending. These included the awarding of federal funds directly for selected communities and federal restrictions on the use of SRF funds.

Maryland and Pennsylvania officials said that the earmarking of federal funds—not from the SRF program—for specific communities raised the expectation in other communities that if they waited long enough, they might also receive funds directly. This expectation reduced these communities' incentive to apply for an SRF loan.

For example, a Maryland official said that state SRF lending was limited by a congressional decision to provide federal funds directly for a project in Baltimore, which SRF officials had expected to finance. He said that the City of Baltimore turned down the SRF loan because it received \$80 million in federal grant funds for the project in 1993 and 1994. The state official said that it took time to find other communities to borrow the money that was originally set aside for the Baltimore project. The state increased its percentage of funds lent from 61 percent at the end of 1995 to 70 percent at the end of 1996.

Officials from Missouri said that certain federal restrictions on the use of SRF funds limit the amount of loans they can make. For example, a state official cited restrictions on financing the costs of acquiring land. Under the Clean Water Act, SRF loans cannot be made to purchase land unless the land itself is an integral part of the waste treatment processes.<sup>10</sup> Thus, wetlands used to filter wastewater as part of the treatment process are an eligible expense under the act. However, other lands, such as the land upon which a treatment plant would be built, are not eligible. According to the official, because purchasing land for a wastewater treatment facility represents a large portion of the facility's cost but is ineligible for SRF financing, some communities are discouraged from seeking SRF loans.

<sup>10</sup>In January 1992, we reported that the ineligibility of certain land costs for SRF assistance posed a financial problem for many communities. See *Water Pollution: State Revolving Funds Insufficient to Meet Wastewater Treatment Needs* (GAO/RCED-92-35, Jan. 27, 1992).

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## States' Management Decisions Limited Lending in Two States

In Pennsylvania and Arizona, the amount of funds lent was limited by decisions on how to manage the loan fund. These decisions related to how to use SRF funds in Pennsylvania and how to publicize the program in Arizona.

Pennsylvania established a state-funded program, independent of the SRF, in March 1988 to help communities finance wastewater and other projects.<sup>11</sup> In the early years of the SRF program, Pennsylvania officials decided to finance about \$248 million in wastewater projects with these state funds rather than wait for SRF funding to become available, according to state officials. Also according to these officials, the state decided to fund these projects as soon as possible with state funds to reduce public health risks. For example, about \$30 million was awarded to the City of Johnstown to upgrade an existing treatment plant and thereby prevent raw sewage overflows and inadequately treated wastewater from being discharged into surface waters.

According to a state official, Pennsylvania's percentage of funds lent would have been higher if the state had chosen to fund these \$248 million in projects with SRF funds. In that case, he said, Pennsylvania's total amount of funds lent through the end of 1996 would have been \$558 million, instead of \$310 million, and the state would have lent all available funds, instead of 60 percent of these funds.

Likewise, in Arizona, the state's decisions limited the amount of funds lent. According to a state official, efforts to inform local government officials about the SRF program and interest them in participating were not effective in the program's early years. This difficulty was compounded by restrictive provisions of state law that further limited the amount of SRF funds lent.<sup>12</sup> The state official said that the outreach effort was refocused in 1995. He also noted that the approval of changes in state laws in 1995 and 1996

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<sup>11</sup>Five of the other eight states—Illinois, Maryland, Missouri, Oregon, and Texas—also had grant and/or loan programs. These programs ranged in size. For example, in 1995 the funding available through Maryland's program was approximately \$1 million, while the funding available through Illinois' program was about \$185 million.

<sup>12</sup>Several provisions of Arizona State laws restricted some localities' ability to participate in the SRF by requiring that voters approve loan agreements and other means. According to a state official, largely because of the marketing and legal factors, the state did not make any loans during 1993 and 1994. In July 1994, EPA notified Arizona that it was not in compliance with the program's regulations because it did not enter into binding commitments to fund specific projects within a year of receiving its payments. EPA required Arizona to take corrective action or face the loss of these grants. In response, Arizona developed a corrective action plan, which EPA approved. Among other things, the plan recommended several changes to the laws that limit local participation in the program. In 1995 and 1996, the Arizona State legislature approved many of the recommended changes. The state resumed making loans in August 1995 and, according to an EPA official, was in compliance with the program's requirements in April 1996.

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helped create a more positive atmosphere for outreach, even before the changes took effect. Arizona's percentage of funds lent was 55 percent at the end of 1995 and 81 percent at the end of 1996.

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## Agency Comments

We provided copies of a draft of this report to EPA for its review and comment. On December 11, 1996, we met with EPA officials, including the Chief of the State Revolving Fund Branch in the Office of Wastewater Management, who noted that the report was generally accurate and well researched. In addition to suggesting clarifications in certain places, which we have incorporated where appropriate, EPA asked that we make it clear that the prevailing-wage requirement expired at the end of September 1994 and that any continued application would result from the states' decisions to retain the requirement. We have added language in the report to clarify this point. Subsequent to our meeting, EPA provided us with written comments on this report, which are reproduced in appendix IV.

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## Scope and Methodology

We used a questionnaire and follow-up discussions to collect information on SRF activities and finances from program officials from the nine states. We selected these states to provide diversity in terms of SRF program size and complexity and other factors, such as geography. However, the conditions in these states are not necessarily representative of the conditions in all 51 SRFs. We also interviewed EPA headquarters and regional officials who are responsible for the SRF program. We did not attempt to independently verify the information collected from EPA or the states. Appendix III provides additional information on how we calculated the states' percentages of funds lent.

We conducted our review from March through December 1996 in accordance with generally accepted government auditing standards.


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As arranged with your office, unless you publicly announce this report's contents earlier, we plan no further distribution of the report until 30 days after the date of this letter. At that time, we will send copies of the report to the appropriate congressional committees and the Administrator of EPA. We will also make copies available to others upon request.

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Please call me at (202) 512-6111 if you or your staff have any questions.  
Major contributors to this report are listed in appendix V.

Sincerely yours,

A handwritten signature in black ink that reads "Stanley J. Czerwinski". The signature is written in a cursive, flowing style.

Stanley J. Czerwinski  
Associate Director  
Environmental Protection Issues

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## Abbreviations

EPA	Environmental Protection Agency
GAO	General Accounting Office
SRF	state revolving fund

# Sources of Funding for Nine States' Revolving Funds

Under the Clean Water State Revolving Fund (SRF) Program, the states use funds from six primary sources to make loans for wastewater treatment and related projects. These are

- federal grants,
- state matching funds,
- borrowed funds,
- unused funds from the Construction Grants Program,
- repayments of loans, and
- earnings on invested funds.

All nine states received federal grants and provided state matching funds. These two sources generally accounted for most of the money in the nine states' revolving funds. Four of the nine states borrowed money for their revolving funds. Five states transferred unused funds from the old Construction Grants Program. All nine states received some loan repayments. Finally, eight states had investment earnings on loan repayments.

Table I.1 shows the amount and sources of funding for the nine states we reviewed through each state's fiscal year 1996.

**Table I.1: Sources of Funding for Nine States, Through 1996**

Dollars in thousands

State	SRF grants awarded	State match	Borrowed funds	Transfers from Construction Grants Program	Loan repayments	Investment earnings	Total
Arizona	\$82,214	\$12,559	\$25,338	\$0	\$475	\$444	\$121,030
Florida	376,183	102,010	0	67,558	47,591	57,946	656,441 <sup>a</sup>
Illinois	478,098	92,520	0	24,900	77,610	10,200	683,328
Louisiana	134,389	28,063	0	0	4,126	0	166,578
Maryland	239,892	49,566	143,046	0	12,717	9,052	454,273
Missouri	298,550	59,710	216,072	681	79,340	11,026	665,379
Oregon	124,033	20,399	0	0	16,400	2,600	163,432
Pennsylvania	390,178	83,276	0	1,255	43,866	2,514	521,088
Texas	528,078	144,284	554,352	197,502	86,871	21,988	1,533,075
<b>Total</b>	<b>\$2,651,615</b>	<b>\$592,387</b>	<b>\$938,808</b>	<b>\$291,896</b>	<b>\$368,996</b>	<b>\$115,770</b>	<b>\$4,964,624</b>

<sup>a</sup>Total includes \$5,153,000 in administrative funds that did not fit in any of the categories.

# State Lending, 1995 and 1996

The amount of funds lent increased overall in every state from 1995 to 1996, as shown in the table below. In addition, the percentage of funds lent generally stayed the same or increased during that period. (App. III explains the basis for GAO’s calculation of the percentage of funds lent by state.)

**Table II.1: Amount and Percentage of Funds Lent, 1995 and 1996, by State**

State	Amount of funds lent (thousands of dollars)		Percentage of funds lent	
	1995	1996	1995	1996
Arizona	\$ 50,500	\$ 98,555	55	81
Florida	538,896	651,595	99	99
Illinois	529,000	614,000	86	90
Louisiana	91,173	131,983	62	79
Maryland	268,889	318,889	61	70
Missouri	461,973	531,368	82	80
Oregon	82,900	122,900	57	75
Pennsylvania	266,575	310,787	53	60
Texas	1,023,788	1,267,548	81	83
<b>Total</b>	<b>\$3,313,694</b>	<b>\$4,042,207</b>	<b>62<sup>a</sup></b>	<b>80<sup>a</sup></b>

<sup>a</sup>The percentage shown is the median of the nine states’ individual percentages. We believe this is a better way to measure the various states’ experience than to calculate the cumulative average for the nine states, which would give greater weight to the states with large programs.

Source: GAO’s analysis of data provided by the states.

# Methodology for Computing the Percentage of Funds Lent

To determine the percentage of funds lent by each state as of the end of 1995 and 1996, we divided the total amount of funds lent by the total funds available to lend, both as of the end of the year. We defined the total funds available as including the following six components: federal SRF grants, state matching funds, funds obtained through leveraging, transfers of unused funds from the Construction Grants Program, loan repayments, and investment earnings.

We obtained information on loans made and funds available from each state through a questionnaire and follow-up contacts. In addition, we compared the states' data on the amount of federal SRF grants with the data we obtained from the Environmental Protection Agency (EPA). Our methodology was based on the approach used by the Ohio Water Development Authority in conducting annual SRF surveys during 1992 through 1995. In addition, we discussed our methodology with officials from EPA, the Ohio authority, and the nine states, who generally agreed with our approach.

However, state officials raised two concerns about this methodology. First, a Missouri official suggested that loan repayments should not be counted as part of available funds because they do not represent "new" money; rather, repayments represent a recouping of funds previously lent. He said that including repayments would result in double counting and thus overstate the amount of funds the states had available. We chose to include repayments because of the revolving nature of the state funds. Just as any loans made from repayments would be included in the total of funds lent, any repayments need to be included in funds available to provide a complete and consistent accounting of the funds available. If the repayments were excluded from the total amounts of funds available to lend, Missouri's percentage would be 91 percent; according to our methodology, Missouri's percentage was 80 percent.

Second, an Arizona official contended that we should not have counted the state's full federal grants as being available to lend. The state did not accept its full federal grants for 2 years. According to his calculation, if the percentage of funds lent were based on the amount that Arizona actually received (rather than the amount it could have received), the state's percentage of funds lent would have been 99 percent in 1995, rather than 55 percent. In our calculations, we used the full amount of federal grants that were available to the state because the state's decisions resulted in Arizona's not accepting its full federal grants.

# Comments From the Environmental Protection Agency



UNITED STATES ENVIRONMENTAL PROTECTION AGENCY  
WASHINGTON, D.C. 20460

DEC 13 1996

OFFICE OF  
WATER

Mr. Stanley J. Czerwinski  
Associate Director  
Environmental Protection Issues  
General Accounting Office  
Washington, D.C. 20348

Dear Mr. Czerwinski,

Thank you for the opportunity to comment on the draft GAO Report "State Revolving Fund Loans for Wastewater Treatment (December 1996)." In general, we find the report accurate and well researched and appreciate the manner in which your staff worked with the states and my staff to fully understand this complex program.

The catalyst for this report was a concern over "unliquidated balances" among staff on the House Appropriations Committee. We appreciate your thoroughness in examining this subject and your subsequent communications last April to the Committee explaining the program and indicating that such balances are an appropriate part of this program and should not be a topic of concern.

We also have some concerns over the numbers and their presentation in this report and have forwarded separately some detailed comments and suggestions which we feel would enhance and clarify this report.

Sincerely,

A handwritten signature in cursive script, reading "Michael J. Quigley".  
Michael J. Quigley, Director  
Municipal Support Division

# Major Contributors to This Report

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Resources,  
Community, and  
Economic  
Development  
Division, Washington,  
D.C.

David Marwick, Assistant Director  
Lisa T. Pittelkau, Evaluator-in-Charge  
Bruce Skud, Senior Evaluator  
Donald J. Sangirardi, Evaluator  
Kelly S. Ervin, Social Science Analyst

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Office of the General  
Counsel

Richard P. Johnson, Attorney-Adviser

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Postage & Fees Paid  
GAO  
Permit No. G100**

**Official Business  
Penalty for Private Use \$300**

**Address Correction Requested**

